UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF RHODE ISLAND

KNOX ASSOCIATES, INC.
d/b/a THE KNOX COMPANY

V. C.A. 01-415S

EMERGENCY ACCESS SYSTEMS, INC.

MEMORANDUM AND ORDER

In this matter, the plaintiff, Knox Associates, Inc. ("Knox"), has filed a motion to amend this court's Report and Recommendation ("R&R") dated October 21, 2002. The defendant, Emergency Access Systems, Inc. ("EAS"), has objected. EAS has filed a motion for reconsideration of the R&R based upon "new evidence" and Knox has filed a motion to strike EAS' motion for reconsideration. These motions were referred to a magistrate judge for determination. 28 U.S.C. § 636(b)(1)(A); Local Rule 32(c). A hearing was held on November 14, 2002. Thereafter, this court met with counsel and requested a copy of all relevant state court pleadings involving these parties in a companion matter, and supplemental briefing as to the defendant's motion for reconsideration. The court also offered the parties an additional opportunity to be heard on those supplemental briefs. A further hearing was held on December 23, 2002. During that hearing, the parties agreed that the Sales Agency Agreement ("the Agreement") has been terminated and is no longer in effect.

Knox's Motion to Amend the Report and Recommendation

Knox argues that ¶ 1 of the recommended injunction on page 31 of the R&R should be amended to include a prohibition against EAS' use of key codes derived from Knox Master Keys. The R&R, ¶ 1 on page 31, if accepted, would require EAS to return to Knox all master keys in its possession which are coded for use in Knox products. In addition, Knox requests that EAS be prohibited from using any key codes corresponding to a Knox master key. If so amended, the recommended injunction would prevent EAS from repinning any lock core in its inventory to receive a Knox master key and selling that lock core separately or as part of a lock box, either an EAS lock box or a Knox lock box. In its supporting memorandum,

Knox states “Given the [] findings regarding Knox’s ownership of the Master Keys, it necessarily follows that Knox also owns the key codes and that EAS’ actions in deciphering codes from the keys was improper.” Knox’s Mem. at 2.

EAS argues that since Knox never owned the key codes assigned by Medeco, but merely was granted their exclusive use by Medeco, EAS should not be prohibited from using the key codes. Indeed, the R&R, at page 13, cites to the deposition testimony of Clyde Roberson, a Medeco employee, to the effect that Medeco assigns key codes to its customers, here Knox, and that key code is for that customer’s exclusive use. The key codes are not sold by Medeco to a customer, but are only assigned for the customer’s exclusive use. Consequently, EAS argues that it should be able to use the key codes assigned to Knox as Knox does not own them. Only Medeco, the owner of the key codes, would have the right to request injunctive relief as to the use of the key codes and Medeco is not a party to this litigation. Also, EAS argues that since there is no prohibition on competition with Knox and that EAS may continue selling from its inventory, EAS should not be required to refrain from use of the key codes.

Both parties set forth some merit in their respective arguments. This court agrees with EAS that the testimony in this matter supports a finding that Knox does not own the key codes assigned to it by Medeco for Knox’s exclusive use. But this does not mean that Knox has no basis for seeking reasonable equitable relief regarding the use of its exclusive key codes. The fact that EAS has obtained Knox’s exclusive key codes which it uses to repin lock cores to accept Knox master keys and deprive Knox of an opportunity to make a sale and, therefore, a profit, does not mean that Knox is without any basis to request injunctive relief. After all, Knox has the exclusive use of the key codes as granted to it by Medeco. EAS has obtained those key codes through possession of numerous master keys which were received from Knox and not forwarded to a specific fire department. All of this occurred without Knox’s knowledge. It would be unfair and unjust to allow EAS to continue use of the key codes assigned to Knox under these circumstances. However, EAS is correct that it may continue to sell the remaining inventory in its possession subsequent to the termination of the Agreement. Therefore, it would be incorrect to prohibit EAS from selling any coded lock core purchased from Knox before the Agreement was terminated. However, this would not include any lock core purchased from

Medeco after termination of the Agreement and repinned to accept a Knox master key. Such a lock core would not be included in the term "inventory" as contemplated by the Agreement. Consequently, Knox's motion to amend is granted in part and ¶ 1 of the R&R on page 31 is amended to read as follows:

> 1) that Knox be declared the owner of its master keys and that EAS be required forthwith to return to Knox all master keys in its possession which are coded for use in Knox products. EAS should also be required to identify the specific fire departments to which each master key is assigned. Additionally, EAS should be enjoined from using any key codes assigned for Knox's exclusive use, except for any coded lock cores which EAS purchased directly from Knox prior to the termination of the Agreement and which were in EAS' inventory at the time of such termination.

EAS' Motion for Reconsideration Based on New Evidence
Knox's Motion to Strike EAS' Motion

EAS has filed its motion based upon a jury verdict in a companion action brought by EAS against Knox in the Rhode Island state court. In that state court action, EAS prevailed in that it received a jury verdict on October 22, 2002 of $311,599.32, including interest and costs. EAS argues that the jury verdict was reached upon a finding by that jury "that Knox materially breached its obligations under the Distributor Agreement that formed the basis of their relationship between the parties." EAS' Mem. at 1. The issue of whether Knox terminated the Agreement in accordance with the terms of the Agreement was not brought before this court, but was raised only in the state court action. Consequently, this court did not consider this issue, although EAS, which brought the state court action, requested this court consider this issue even though not raised here.

Further, although EAS argues vociferously that the state court verdict "judicially determined that the termination was improper", EAS' Mem. at 3, the problem facing this court is how to interpret and apply the state court verdict to this pending federal court action. As a result, this court requested the parties to submit copies of the relevant state

court pleadings. In response to this request, the parties submitted multiple pleadings including some pleadings in a state court case filed in California[1].

A review of the pleadings in the Rhode Island state court case reveals that in May 2001 EAS filed an Amended Complaint and Jury Demand which set forth three causes of action: (1) Breach of Contract; (2) Breach of the Duty of Good Faith and Fair Dealing; and (3) Tortious Interference with Business Relationships. In June 2002, Knox filed an Amended Answer to the Amended Complaint denying these causes of action and setting forth numerous affirmative defenses. In January 2002, EAS moved in limine to preclude Knox from introducing evidence of trade dress infringement and to preclude Knox from asserting any breaches of the Agreement by EAS. In October 2002, Knox moved in limine to preclude EAS from referring to claims filed in any other court, to preclude EAS from using certain written reports and charts, to preclude EAS from using St. Sauveur's testimony regarding the meaning of the Agreement and its amendments, to preclude EAS from presenting evidence regarding Knox's contact with EAS' alleged clients (other than those relevant to the amended complaint), to preclude EAS from presenting testimony from Bruce Bodge, and to preclude EAS from referring to or presenting evidence of punitive damages until the state court ruled on whether the evidence supported such a claim. It is not clear from the documents submitted by the parties as to whether the state court heard these motions in limine and, if so, what the state court ruled. What is clear, however, is that the state court case determined only the breach of contract claim. See Knox's Mem.(12/20/02) at 3.

Also, the Interrogatories to the Jury listed two questions: (1) "Has the plaintiff, [EAS], proven by a fair preponderance of the evidence that the defendant breached the contract" and (2)(if the answer was in the affirmative), "What damages do you award to [EAS]?" The state court jury determined that Knox did breach the Agreement as it acted without good cause and awarded EAS $256,000.00 plus interest and court costs for a total of $311,599.32. Following the verdict, Knox moved for judgment or, alternatively, for a new

[1] The parties agree that Knox subsequently dismissed the matter brought by it in the California state court or, at the very least, the California court stayed the matter.

trial pursuant to R.I. Sup. Ct. Rules of Civil Procedure 50(b). EAS opposed this motion and moved pursuant to Rules 50 and 59 for an additur or an amendment to the judgment. EAS also moved for entry of an injunction "enforcing the provisions of the [Agreement], as amended, that require all sales of Knox products in Connecticut, Massachusetts and Rhode Island to be made through EAS." See EAS' Supp. Mem. in Support of an Injunction at 3. The state court denied all post-trial motions.

EAS now argues that Knox should be denied injunctive relief in the federal court because the state court judgment is res judicata as to all issues raised by Knox in seeking the preliminary injunction in federal court since all these issues could have been raised in the state court action. In essence, EAS argues that the issues raised by Knox in its request for injunctive relief should have been raised in the state court matter by way of a compulsory counterclaim pursuant to state court Rule 13(a). Knox responded by arguing that the doctrine of res judicata does not apply here "because the state court action only concerned the termination of EAS's contract and actions occurring prior to that termination" whereas the federal court litigation involved "claims which arose entirely after the contract was terminated." Knox's Mem. on Res Judicata Principles at 1.

> Under the federal law of res judicata, a final judgment on the merits of an action precludes the parties or their privies from relitigating claims that were raised or could have been raised in that action. The policy rationale behind res judicata is to "relieve parties of the cost and vexation of multiple lawsuits, conserve judicial resources, and, by preventing inconsistent decisions, encourage reliance on adjudication." Res judicata, therefore, prevents plaintiffs from splitting their claims by providing a strong incentive for them to plead all factually related allegations and attendant legal theories for recovery the first time they bring suit.

Apparel Art Intern. v. Amertex Enterprises, 48 F.3d 576, 583 (1st Cir. 1995)(quoting Allen v. McCurry, 449 U.S. 90

(1980)(citations omitted).

In making a determination as to whether res judicata precludes litigation of a party's claims, the court should consider three factors: (1) whether a final judgment was entered on the merits in an earlier suit; (2) whether there is sufficient identity between the causes of action asserted in the earlier and later suits; and (3) whether there is sufficient identity between the parties in the two suits. Id.

> Here, there is no dispute that there was a final judgment entered in the state court and that there is identity of the parties as the parties are the same in both lawsuits. The question is whether there is sufficient identity between the claims raised by EAS in the state court and the claims raised by Knox in the federal court.
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> [A] cause of action is defined as a set of facts which can be characterized as a single transaction or a series of related transactions. The cause of action, therefore, is a transaction that is identified by a common nucleus of operative facts. ...if the facts form a common nucleus that is identifiable as a transaction or series of related transactions, then those facts represent on cause of action.

Id. at 583-84.

Here, the cause of action that was presented in the state court action was whether the Agreement was breached by Knox. The state court jury determined that it was so breached and awarded EAS damages. Obviously, neither Knox nor EAS could relitigate that issue in federal court. But the issues raised by Knox in the federal court and, in particular, the request for a preliminary injunction do not include the issue of whether Knox breached the Agreement. The federal court action seeks, *inter alia*, relief because the Agreement was terminated by Knox and Knox seeks relief as to the obligations of EAS following the termination of the Agreement. The rights and obligations of the parties, in particular EAS, after the termination of the Agreement were not addressed in the state court and were not raised in the state court action.

The real issue here is whether the claims of Knox, or some of them, raised in the federal court action are preluded by Fed. R. Civ. P. 13(a)(compulsory counterclaims). Rule 13(a) requires that the counterclaim be in existence at the time the pleading is served. Here, when Knox served its answer to EAS' complaint in the state court, the issue of whether the Agreement was actually and properly terminated was unresolved and disputed. Consequently, Knox did not then have a claim as to the rights and obligations of the parties under the Agreement following termination until there was a determination as to the effect of Knox's termination letter. See United States v. M/V Santa Clara I, 819 F. Supp. 507, 514 (D.S.C. 1993)(when a claim is not mature as of the time the answer is filed, that claim is not a compulsory counterclaim). Also, the issues of ownership of the master keys, use of the 1-800-KNOXBOX telephone number, and the use of the inventory after termination were not addressed in the Agreement and, therefore, were not a part of the issue before the state court. Whether or not the Agreement was terminated by Knox properly, these issues would remain unresolved as the Agreement was silent as to each.

To determine whether a counterclaim is compulsory or permissive, the First Circuit has set forth four tests to be considered by the determining court. These include:

> 1) Are the issues of fact and law raised by the claim and counterclaim largely the same?
>
> 2) Would res judicata bar a subsequent suit on defendant's claim absent the compulsory counterclaim rule?
>
> 3) Will substantially the same evidence support or refute plaintiff's claim as well as defendant's counterclaim?
>
> 4) Is there any logical relation between the claim and the counterclaim?

Iglesias v. Mutual Life Ins. Co. of New York, 156 F.3d 237, 241 (1sst Cir. 1998); see also, 6 Wright, Miller & Kane, Federal Practice and Procedure, § 1410, at 50 et seq.

Applying these tests to the instant matter, it is clear

that the issues raised in Knox's request for preliminary injunction do not comprise a compulsory counterclaim. The facts certainly are not the same in that this request for preliminary injunction deals with post-termination issues and the state court action dealt with pre-termination issues. See Kopf v. Chloride Power Electronics, Inc., 882 F. Supp. 1183, 1188 (D.N.H. 1995). There is no common nucleus of operative facts so that res judicata would not bar this federal court action. The claims in the state and federal courts do not rely upon substantially the same evidence. And, while there is some relationship between the proper termination of the Agreement and the rights and obligations of the parties thereafter, logic does not require that these issues be determined in the same lawsuit. After consideration of the four tests, this court concludes that Knox's request for a preliminary injunction need not have been brought as a compulsory counterclaim in the state court action.

In response to this motion, Knox filed its motion to strike EAS' motion for reconsideration. This motion to strike is based upon the following grounds: (1) any objection to the R&R had to be filed on or before November 1, 2002 and EAS' motion to reconsider was filed on November 7, 2002; (2) EAS was aware of the "new evidence" on October 22, 2002, the date the jury verdict was entered and the date EAS received a copy of the R&R; (3) the motion for reconsideration should not be interpreted as an objection to the R&R and, even if so considered, it is untimely filed; (4) there is no provision in the Federal Rules of Civil Procedure or the Local Rules permitting a motion for reconsideration of an R&R; and (5) EAS, although it filed an objection to the R&R on November 7, 2002, has not filed a timely objection to the R&R.

To the extent that EAS bases its motion for reconsideration on res judicata and compulsory counterclaim grounds, this court finds no support in this record for the granting of such a motion. The issues raised in the federal court litigation are not identical with those raised in the state court. The complaint in the federal court raises claims pursuant to the Lanham Act, 15 U.S.C. §1125(a) as well as the common law of Rhode Island. See Verified Compl. at ¶ 1. Count I of the Verified Complaint raises issues of false designation of origin, trade dress infringement and unfair competition; Count II raises claims of federal trademark infringement; Count III addresses federal trademark dilution; Count IV addresses unfair competition; Count V addresses

breach of the Agreement following termination; and Count VI raises the issue of conversion. These are separate and distinct issues from those raised in the state court and are based upon a different fact pattern.

Based upon the above analysis, EAS' motion for reconsideration is denied. Accordingly, Knox's motion to strike is denied as moot.

So ordered.

ENTER: By Order

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Robert W. Lovegreen Deputy Clerk
United States Magistrate Judge
January 3, 2003